

MINUTES
September 29, 2003
Stevens T Mason Building
7th Floor Conference Room, Lansing, Michigan

NRC POLICY COMMITTEE ON FINANCE AND ADMINISTRATION

**Investments, Audits, Legislative Update and
Waterways and Harbor Development Funds**

PRESENT:

Commissioner Bill Parfet, Chair
Commissioner Frank Wheatlake
Commissioner Keith Charters
Commissioner Bob Garner
Director K. L. Cool
Administrative Services Deputy Kelli Sobel, DNR
Resource Management Deputy George Burgoyne, DNR
Upper Peninsula Field Deputy Jim Ekdahl, DNR
Financial Services Chief Joe Frick, DNR
Budget Development and Support Services Chief Sharon Schafer, DNR

OTHER ATTENDEES:

Steve Baker, Office of Auditor General
Bill Bobier, Michigan United Conservation Clubs
Rich Bowman, Trout Unlimited
Gary Brown, Office of Auditor General
Dennis Fox, Lt. Governor's Office
Patrick Harrington, Muchmore, Harrington, Smalley and Associates
Mark Haas, Department of Treasury
Tom Hickson, Michigan Association of Counties
Kirk Linquist, House Fiscal Agency
Mike Maisner, Michigan Recreation and Park Association
Bill Manson, Michigan Snowmobile Association
Paul Nelson, Department of Treasury
Andy Pelt, Michigan Steelheaders
Jim Schramm, GLC Federation of Fly Fishers
Melissa Schuling, Office of Auditor General
Van Snider, Michigan Boating Industries Association
Bob Spicer, Waterways Commission
Donna Stine, Michigan United Conservation Clubs
Ray Underwood, Muchmore Harrington Smalley Associates
Sam Washington, Michigan United Conservation Clubs
John Winn, Waterways Commission
Carol Bambery, DNR Legal Services

Tom Benson, DNR Program Assistance and Review
Jim Dubbs, DNR Law Enforcement
Dawn Fedewa, DNR Budget and Support Services
Dave Freed, DNR Land and Facilities
Amy Henderson, DNR Financial Services
Tony Herek, DNR Parks and Recreation
Becky Humphries, DNR Wildlife
Dennis Knapp, DNR Legislative Liaison
Mindy Koch, DNR Forest, Mineral and Fire Management
Ann LeClaire-Mitchell, DNR Wildlife
Alan Marble, DNR Law Enforcement
Kristen Morningstar, DNR Budget and Support Services
Kurt Newman, DNR Fisheries
Lowen Schuett, DNR Parks and Recreation
Jane Schultz, DNR Budget and Support Services
Tomia Stuart, DNR Program Assistance and Review
Tom Watson, DNR Program Assistance and Review
Jim Wood, DNR Grants, Contracts and Customer Systems

Chairman Parfet called the meeting to order at 9:00 a.m.

INVESTMENTS

Joe Frick provided a brief overview of the Department of Treasury (Treasury) handout on Investments. At the June 2003 meeting of the Natural Resources Commission (NRC), the NRC approved moving forward in equity investing for six Department of Natural Resources (DNR) permanent investment funds. The Michigan Natural Resources Trust Fund (MNRTF) Board also reviewed the impacts of the investment spending and distribution plan and agreed with the investment recommendations. **Kelli Sobel** distributed the MNRTF adopted policy on the use of the Stabilization Reserve.

Mark Haas stated that Treasury took the recommendations of the NRC to the State Treasurer, who is the sole fiduciary for the State, and the Attorney General for review. The Game and Fish Lifetime License Fund does not have statutory authority to invest in equities. The other five DNR funds do have statutory authority to be invested. Treasury looked at the NRC's recommendation of percentages of funds that could be invested in equities as opposed to Government securities. Treasury began in September 2003 with the Game and Fish Trust Fund, Park Endowment Fund and the Non-Game Trust Fund and began buying S&P 500 indexes for those funds. The Natural Resources Trust Fund (MNRTF) recently received the approval to move forward and Treasury is in the process of making the first investments in early October 2003. Treasury will continue to send a quarterly update to DNR to show how the funds are progressing. **Chairman Parfet** asked about the relationships between DNR and Treasury. **Mark Haas** commented the relationship and communication between DNR and Treasury is very good and Treasury has a clear understanding of DNR's needs.

Kelli Sobel recognized Gary Brown who is retiring from the Auditor General's Office. **Deputy Sobel** thanked Mr. Brown for his work and commented he has been an asset to the DNR and that he has made the DNR strive to be the best administratively run Department.

AUDIT UPDATES

AUDIT UNIVERSE

Kelli Sobel reported that Department of Management and Budget (DMB) hired consultants to evaluate each Department's internal audit system. DNR scored very high overall except in one area, the lack of an audit universe.

Tom Benson gave an overview of the structure of the Office of Program Assistance and Review (OPAR). The goal of the Audit Universe and Risk Analysis is to get a product where it will drive what our work plan will be each fiscal year. OPAR worked for one year with DNR Divisions to come up with 163 assessable units to be audited and OPAR made an assessment and assigned a risk score for each unit. OPAR determined 41 units had a score of 3 or higher (3 being a medium risk to 5 which would be a higher risk). The 41 assessable units will be DNR's starting plan for fiscal year 2004. OPAR will meet with the Divisions to prioritize the list.

Tom Benson reviewed the Biennial Risk Assessment. **Chairman Parfet** asked Tom Benson to come back in the spring to see the results of the first six months of the Audit Universe.

FEDERAL AUDIT

Kelli Sobel reported that DNR staff spent a day with the federal government with the intent of resolving all of the outstanding issues in the Federal Review. The Corrective Action Plan still has to go through the Department of Interior (DOI) and that could take up to a year. DOI stated they had concerns that they would have a difficult time to explain why it took seven years to complete and why the audit went from \$25 million to \$2 million.

LEGISLATIVE UPDATES

Kelli Sobel reviewed the Legislatively passed entrance fee increases for state parks but DNR was unsuccessful in turning the fee authority over to the NRC. Fee increases added that DNR did not want include: annual/daily fee for non-residents; decreased fee increase for food stamp holders; and a length of stay pass for towed vehicle. DNR will not seek a camping fee increase this year. We believe it is unfair to the camping public to absorb two fee increases in one year. The new fees go into effect on January 1, 2004. We estimate a \$2 million increase to revenue from these increased park fees. **Bill Bobier** commented that the DNR should continue to seek authority for the NRC to set fees. **Kelli Sobel** stated that the fee increases sunset in 2007. **Dennis Knapp** said that timing is not favorable for the Department to seek more authority right now. Discussion ensued.

BUDGET

Kelli Sobel gave an update on the 2004 budget that goes into effect on October 1, 2003. DNR has \$28.8 million in General Fund, which is down from \$43.8 million in fiscal year 2003. This represents a 35% reduction. Of the \$28 million left in General Fund \$12 million goes to pay taxes. All General Fund money was removed from State Parks. The State Budget for 2004 is built on an assumption of \$250 million in state employee concessions. The Office of State Employer has yet to come to agreement with the various Unions. DNR could experience large lapses from 2003 due to

purchasing restrictions and the hiring freeze. DNR will not know the exact amount of lapses until the books are closed for this year.

Chairman Parfet asked Sam Washington if this is something that MUCC could assist us with. **Sam Washington** stated that MUCC has been dealing to a great extent with the overall General Fund depletion to the DNR. **Rich Bowman** stated that he has written numerous articles about this and Trout Unlimited has been working on this issue. DNR has been unable to get through to legislators that the conservation people are a large block of voters and do make a difference in elections. **Frank Wheatlake** stated that we need the support from constituent groups. **Sam Washington** stated we are the victims of our own success. People need to notice that things are not the way they were five to ten years ago before they will do something to help.

Kelli Sobel said that Representative Tabor introduced House Joint Resolution J (HJR J) that establishes a Michigan Habitat Trust Fund as an endowment fund. HJR J is problematic for the DNR. Both **George Burgoyne** and **Kelli Sobel** commented that their analysis of HJR J shows it would put the DNR in diversion with the federal government. **Dennis Knapp** commented that he has had productive discussions with Representative Tabor regarding this resolution and that Representative Tabor will take this constitutional proposal back to the drawing board with the concept of protecting our funds from being used for unintended purposes. Discussion ensued.

Kelli Sobel stated that another piece of legislation being discussed is the Michigan Recreational Water Trust Fund that creates a new recreational water trust fund from the Waterways, Harbor Development and Marine Safety Funds. It would establish a new board and would limit our spending to \$4.5 million a year. DNR staff met with Representative Richardville last week regarding this legislation. **Ray Underwood** stated that boaters are looking at a way to protect the fund because the Waterways Fund was previously raided.

PAYMENT IN LIEU OF TAXES (P.I.L.T.)

Kelli Sobel stated that Senator McManus held one hearing and two workgroups sessions to craft a solution to PILT. Discussion involved soliciting agreement on her bill which would freeze valuations, stop paying special millages, stop paying state education taxes, and have locals forgive taxes on certain properties. There was not much consensus among the workgroup and the constituents wanted to use more restricted funds to pay PILT. DNR does not support the use of restricted funds to pay PILT. We received \$1.5 million in general fund supplemental to pay summer billings and used \$1.1 million DNR cannot pay the winter billings this year because we are approximately \$800,000 short. DNR is about \$3 million short in paying PILT in full in fiscal year 2004. There is an urgency to find a solution so that we are not in a situation of not paying the billings in February 2004. **Keith Charters** asked what happens if we don't pay these bills. **Kelli Sobel** responded nothing would happen. **Bob Garner** said that they are not our taxes and the Attorney General was very specific about the solution.

COMMISSION ISSUES

Chairman Parfet stated DNR has three significant problems: 1) this legislature because of term limits; 2) special interest groups because they do not do well if they say DNR is doing a good job; and 3) trying to get people who love Michigan's resources together by joining forces to protect our valuable natural resources in this state. We are the victims of our own success. **Frank Wheatlake**

stated this Committee and the constituent groups need to compose an amendment and take it to the legislature for enactment to protect our natural resources. **Keith Charters** said that the biggest criticism he has heard is that the NRC made DNR too political, however, he believes it is not political enough. We need to get more proactive, more political and inform that legislators what the Department needs. We want our restricted funds protected. **Chairman Parfet** suggested the Finance and Administration Committee meet in October 2003 to propose solid ideas to protect DNR funds and instructed Dennis Knapp to communicate with DNR constituents regarding protection of funds. Discussion ensued.

Chairman Parfet stated DNR's Four Key Issues are:

1. Protect DNR funds.
2. Make sure DNR fees collected are used for their intended use.
3. Maximize return on DNR investments.
4. Fund lapses.

Waterway and Harbor Development Funds

Kelli Sobel gave an update on the Waterways Fund and advised that DNR will end the year with approximately \$3 million in the fund. DNR asked for a Capital Outlay appropriation of \$6 million but that has not been passed by the Legislature. DNR will transfer the balance of the Harbor Development Fund this year so that at the end of 2004, if we get to spend our money in Capital Outlay, we would have a balance of \$5 million, if not we would have \$11 million in the fund. DNR will take to the Waterways Commission a recommendation for the 2005 budget to spend around \$7 million. **John Winn** gave an update on various waterways projects and concerns. **Mr. Winn** stated that all that can be done is to maintain existing facilities, since there is no money for new facilities. Discussion ensued.

Chairman Parfet stated that the Agenda for the October 2003 Committee meeting will focus on DNR's four key issues. Dennis Knapp should immediately start contacting and begin to assist our legislative officials with crafting legislation to help DNR on its various issues. **Chairman Parfet** also asked to schedule a meeting for February 2004.

The minutes from the May 19, 2003 meeting of the NRC Policy Committee on Finance and Administration were approved by the Committee. All supported; none opposed.

Chairman Parfet adjourned the meeting at 11:25 a.m.

William U. Parfet, Chair
NRC Policy Committee on Finance
and Administration

Date